

Joint Ownership of Patents A Trap for the Unwary

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Introduction

The high cost of conducting research and bringing new products to market has changed the way many organizations approach new product development. Such organizations, lean and mean from downsizing, often do not have all the expertise needed to conduct the research and development necessary to produce a new product. Therefore, many organizations elect to develop new products and the proprietary technology necessary to protect such products through strategic alliances. Forming strategic alliances is considered more cost effective and efficient than developing, maintaining, and supporting a large in-house research and development staff.

These strategic alliances are generally created by contracts¹ that require the parties to jointly develop the technology that forms the basis for a new product. The parties or their employees often work in teams that pool expertise and resources to conduct various parts of the research and development needed to create a new product. Developing technology in teams means that the team members will be joint inventors on any patents that issue based on the technology. Similarly, the contracts governing these strategic alliances often provide for the joint ownership of the technology and the patents that protect the technology.

Joint ownership of the technology and the resulting patents seems acceptable. After all, the parties to the alliance have cooperated to obtain the patents and should share the benefits that accompany property ownership. However, joint ownership of patents can trap the unwary into a false sense of security. Often parties to a strategic alliance believe that joint ownership means that the parties will jointly control the patents and share the profits from the alliance in proportion to contributions or at least will share equally in such profits. The interplay between the laws governing joint inventorship and the laws governing joint ownership for patents can produce unexpected and disastrous results when parties enter into strategic alliances without anticipating how these laws affect the parties' rights to profit from the resulting patents.

This article will, therefore, review the law governing joint inventorship and joint ownership of patents, discuss the problems that can result from such ownership, and suggest methods to avoid the problems, disputes, and litigation that can result from such joint ownership.

Joint Inventorship

Most research is conducted by teams of individuals from universities and corporations and not by the “lone inventor” exemplified by Thomas Edison. These individuals, often working together as the result of a strategic alliance between two or more organizations, bring different skills and expertise to the team. They contribute different elements at different times to the development of technology. When it is time to file a patent application protecting the technology, the process of determining who invented what and when it was invented may be a difficult one. However, inventorship must be determined because the patent laws are strict when it comes to naming the correct inventors on a patent application. Fortunately, the laws governing “inventorship” have changed to accommodate the new trends in the way individuals and organizations conduct research.

Prior to 1984, 35 U.S.C. §116 dictated that a patent application had to be filed in the name of all the joint inventors and each such inventor had to be an inventor for each and every claim in the resulting patent. However, parties often entered into strategic alliances and technology was developed by teams that contributed to different aspects of the invention and therefore different claims in the patent. If the inventors were not inventors for every claim in the patent, the parties were required to file more than one patent application to protect what was essentially one invention. If a single application was filed and the inventorship was not correctly determined, the application was subject to attack and invalidation. Patents were invalidated by the courts simply because all of the named inventors did not contribute to each and every claim.² Also, patents were invalidated because an inventor that contributed to one of the claims was not named as an inventor in the application.³

Recognizing these problems and the trend toward team research in strategic alliances, Congress amended 35 U.S.C. §116 in 1984 to permit a patent application to be filed containing claims that were not invented by each named inventor.⁴ An inventor could work alone to discover a compound and later seek the help of another inventor (company) to develop a new synthetic process to make commercial manufacture feasible. A patent application could be filed claiming the compound and the process and naming both individuals as inventors. All of the inventors must still be named but multiple patent applications do not have to be filed when parties contribute to different aspects of the invention. More importantly, the resulting patent will not be invalidated by the courts if each inventor is not an inventor for each and every claim in the patent.

The 1984 amendment to 35 U.S.C. §116 simply allows individuals to be named as inventors on the patent regardless of whether they made a minor contribution or were full partners in the

creation and development of the invention. The amendment corrected problems with the laws relating to patent inventorship but unfortunately did not change the laws relating to patent ownership.⁵

Joint Ownership

In contrast to joint inventorship, the laws governing joint ownership have not changed to accommodate the new trends in the way individuals and organizations conduct research. Before and after the 1984 amendment effecting joint inventorship, the patent laws governing ownership dictate that “patents shall have the attributes of personal property.”⁶ Consequently, owners of personal property, under common law, have an undivided interest in the patent because it is personal property. The rights of patent owners are codified in 35 U.S.C. §262 which states that “[I]n the absence of any agreement to the contrary, each of the joint owners of a patent may make, use, offer to sell, or sell the patented invention within the United States, or import the patented invention into the United States, without the consent of and without accounting to the other owners.”

This means that an inventor that contributed the vast majority of the assets and work required to develop an invention and an inventor that contributed very little of the assets and work required to develop an invention are “joint owners” of the patent with the power to make use of the patent without accounting to the other inventor. The inventor that contributed little owns a lot! The problems that arise and the inequities that can result are illustrated by the hypothetical scenario and the discussions that follow.

Hypothetical Scenario

Consider the situation where (1) a university professor discovers a new compound that could be useful as a pain killer, (2) the professor solicits the help of a co-worker to conduct the research and development required to test the compound to determine its usefulness as a pain killer, (3) the co-worker confirms that the compound is a pain killer and discovers that it is a blood thinner useful for preventing heart attacks, and (4) the professor enters into a strategic alliance with a company to develop a cheap and efficient synthetic process useful for the commercial manufacture of the compound and to market the compound as a pain killer. Further, based upon the above work, the professor and the company file a patent application naming the professor, the co-worker, and a company employee as inventors and claiming the compound, the use of the compound as a pain killer, the use of the compound to prevent heart attacks, and the new synthetic manufacturing process. Thus, absent an agreement to the contrary, the parties are joint owners of the patent and each party has an undivided property interest in the patent. Later,

the professor and the company begin exclusively marketing a pain killer as required by their strategic alliance agreement but do not share the income with the co-worker because the compound is not being used as a blood thinner.

Subsequently, the co-worker solicits funds from the alliance to develop the compound as a blood thinner but is refused because the compound does not appear to be better than compounds on the market. The co-worker, upset at the rebuke, enters into an alliance with a third party and grants the third party a license under the patent to market the compound as a pain killer and as a blood thinner. The third party begins marketing the compound as a pain killer and the professor and the company are very upset and want it stopped, presumably through a patent infringement lawsuit.

This hypothetical scenario exemplifies the problem with the patent ownership laws and their poor coordination with patent inventorship laws. In the above example, the patent laws require the co-worker to be named as a joint inventor but the law does not differentiate the co-worker based on the co-worker's contribution to the invention. This lack of coordination in the law allows the co-worker to license the third party and permits the third party to market a pain killer identical to the one sold by the alliance.⁷ Indeed, the co-worker could grant numerous non-exclusive licenses to many third parties and effectively destroy the value of the patent. Even though the professor and the company want to prevent the action taken by the co-worker, it is unlikely that they can succeed. Most likely they will have to endure the disaster that diminishes if not destroys the value of the intellectual property in the alliance.

Avoiding Disaster

The above hypothetical scenario is a nightmare that can be avoided if one is aware of the trap created by current laws relating to joint inventorship and joint ownership. There are several ways to avoid the trap, each with its own advantages and disadvantages. How the problem is solved is very dependent on where the parties are in the process. The problem is easily avoided if the parties anticipate the problem and enter into a written agreement defining each party's rights before any work is done. However, as is often the case, the parties are considering who owns what just before a patent application is filed or negotiating rights much later after a patent application has been filed and/or a patent has issued. In this later stage, the issue often arises because a strategic alliance is being formed to market a product based upon the patented technology.

The best solutions involve the filing of separate patent applications for different aspects of the invention or entering into a written agreement that clearly defines the ownership rights of the

parties. An agreement requiring all inventors to assign their rights to one party that will own the patent and control how it is used is clearly the most preferred method to avoid these problems.

Filing Separate Patent Applications

The parties can file two patent applications. One application would claim the compound, its use as a pain killer and the method for making the compound and name the professor and the company's employees as inventors. The second application would name the co-worker as inventor and claim the use of the compound as a blood thinner. The professor may or may not be an inventor on the blood thinner patent depending upon how the parties interacted.

Filing two applications partially solves the problem. The alliance can market the compound as a pain killer without compensating the co-worker. However, if the alliance should ever decide to market a blood thinner, it would need a license from the co-worker.

If the decision to file two applications is being made just before filing, the co-worker may be reluctant to agree to separate applications. The co-worker is placed at a disadvantage by this solution and may be upset. The co-worker cannot develop a blood thinner without a license to use the compound. Further, the co-worker is in a worse position if the professor can be named as a joint inventor on the blood thinner patent with the co-worker. The professor could develop a blood thinner without compensating the co-worker but the co-worker could not develop a blood thinner without a license to use the compound from the professor. Essentially, the professor would be taking advantage of the law in the same way the co-worker could in the hypothetical scenario above. Given this situation, there is little incentive for the co-worker to agree to file separate applications.

It should be clear that the co-worker's consent is not required. The application can be filed without naming the co-worker as an inventor if the co-worker is only an inventor on the blood thinner claims. However, a dispute and possible litigation⁸ may result if the application is filed over the co-worker's objections.

Even if agreeable to the parties, filing two applications may only temporarily solve the problem. The co-worker may later regret agreeing to the above scheme and claim joint inventorship on the application filed by the professor, particularly after the other parties begin profiting from the invention. The claim may be valid or invalid depending on the circumstances. The co-worker may have a valid claim if the co-worker was involved in meetings and discussions where development of the pain killer or the manufacturing process was discussed and the co-worker contributed to the invention.⁹ Even if the claim is invalid, such an assertion

puts a cloud on the title to the patent and may interfere with the professor's ability to enter into strategic alliances.

Further, if successful in being named as a joint inventor, the co-worker may be adverse to the interest of the other parties and will have the power to license third parties and effectively destroy the value of the patent.

Also, filing two applications is expensive because two patent applications must be drafted, two filing fees must be paid, two applications must be prosecuted, and two maintenance fees will be incurred. The expense is dramatic if the patent is filed in several foreign countries.¹⁰

A probable scenario is that the parties were not aware of the issues discussed above and filed one patent application claiming all the inventions and naming all the parties as joint inventors. The parties are then in a situation where they must negotiate a settlement after the application has been filed and often during negotiations with a strategic alliance partner. At this stage, the parties should enter into a written agreement clearly defining each party's rights. Such an agreement also prevents the co-worker from regretting having agreed to the filing of two applications and later attempting to reverse the decision.

Entering into a Written Agreement

Given the additional expense and the possibility of later disputes inherent in the scheme of filing two patent applications, the parties should address the issues and enter into a written agreement that clearly defines the property rights of all parties. This agreement would preferably be entered into before any research and development work is done. However, the parties often neglect to enter into such an agreement before the work is done or fail to include the appropriate contractual terms in such an agreement.

Agreement Before the Work is Done

Clearly the best way to avoid the problem is to enter into an agreement before the research and other work is done. The parties will be in the best position to negotiate an agreement that reflects their contribution to the project. The co-worker can negotiate an adequate compensation for research done with the compound and the professor can control what research is to be conducted. Importantly, neither party has any advantage acquired after the research is completed and either party can refuse to enter into the agreement if not satisfied with the proposed terms.

In the hypothetical scenario, the professor and the co-worker should enter into an agreement compensating the co-worker for work done to develop the pain killer. The agreement should forbid the co-worker from using the compound for other purposes and require the co-worker to assign the rights to any inventions, data, know-how or other intellectual property developed

using the compound to the professor. This reflects the true intent of the parties and effectively prevents the disaster described above. The co-worker will not have profited from unauthorized use of the compound and the professor will have retained the rights to and control of any intellectual property related to the compound.

Even if the co-worker contributes to the invention and must be named as a co-inventor, the agreement governs ownership of the patent by requiring the co-worker to assign any rights to the professor. It may appear that an unfair result occurred if the co-worker's contribution is a major one but in fact the co-worker was compensated for the contribution according to the terms of the agreement. Certainly the co-worker would not return the compensation if the compound proved to be an ineffective pain killer.

If the co-worker is an expert that has skills vital to complete the research, the agreement can compensate for such expertise by providing the co-worker with an equity interest in the resulting technology. The parties can agree that the co-worker shares in the profits from the technology in any manner and proportion agreeable, e.g. a percentage ownership or a royalty.

If the parties agree to joint ownership, it is important to include provisions in the agreement requiring all parties with an ownership interest to consent to infringement law suits against infringers should they be required. Alternatively, the agreement could grant each owner the unilateral right to bring such suits. Otherwise, one party can hinder the other party's ability to bring a patent infringement suit against infringers by refusing to join in the litigation.¹¹ Even with these provisions in the agreement, there is nothing to prevent one co-owner from licensing an infringer sued by the other co-owner and limiting the damages in the suit to those for past infringement.¹² Therefore, in the scenario above, an assignment of rights to the professor and a royalty to the co-worker as compensation would be much preferred.

Getting an agreement before any work is done is the preferred solution. However, the parties are often unaware of the issues and do not enter into such an agreement. Also, even if there is a written agreement, the terms frequently fail to effectively deal with the problems caused by the dichotomy in the joint inventorship and joint ownership patent laws. Therefore, the parties are typically in a position wherein they must deal with the problem after the research and other work has been done. Even in this situation, the parties should still negotiate an agreement that clearly defines their rights to the intellectual property.

Agreement After the Work is Done

The research is complete or a patent application has been filed or an agreement that does not define the parties' rights has been signed. What should the parties do now? As discussed above,

the best solution requires the parties to negotiate an agreement and assign the rights to the patent to the appropriate party(ies).

The problem may be that the professor does not want the co-worker to share in the profits since the co-worker did not contribute to the patent claims protecting the pain killer or, in the opinion of the professor, made only a minor contribution to such invention. Conversely, the co-worker may believe that the expertise provided by the co-worker was crucial to developing the technology and ask for at least an equal share of the profits from the invention.

The professor is, however, in an unenviable position. The professor failed to take the steps necessary to protect the technology and gain sole ownership of the patents. The co-worker is in a strong negotiating position because of this failure. The co-worker, rightly or wrongly, is in a position to negotiate for a share of the profits and become a member of the strategic alliance. Thus, comprise that gives the co-worker more of a share that can rightfully be attributed to the co-worker's contribution may be required. Absent an agreement, the co-worker may impede the professor's ability to find a partner and enter into a strategic alliance or, in the worst case, destroy the value of the patent to the professor and the company by licensing third parties.

The unenviable position facing the professor can be attributed to a lack of knowledge of the differences between patent inventorship and patent ownership and the failure to address those issues in a written agreement early in the research and product development process.

Conclusion

The differences between the laws governing "joint inventorship" and "joint ownership" for patents can create problems for those unaware of the nuances. The most effective way to avoid the trap is to be aware of the issues and deal with them contractually before problems arise. If it is too late to heed this advice, the parties involved should negotiate a settlement that benefits all parties and enter into a written agreement containing terms governing ownership. Failure to enter into a written agreement may cause the parties to incur the expense associated with multiple patent applications, extensive settlement negotiations, or litigation. In the unfortunate situation where no agreement can be reached, the value of the technology and patents protecting the technology may be greatly diminished.

¹ These contracts typically are joint research and development agreements, joint venture agreements, license agreements, or partnership agreements but can take any name or form that creates an alliance for the joint development of technology.

² *Amax Fly Ash Corp. v. United States*, 182 USPQ 210 (Ct. Cl. 1975) (a patent where more or less than the true number of inventors is named void and invalid).

³ *Hobbs v. United States Atomic Energy Commission*, 171 USPQ 713 (5th Cir. 1971) (a patent protecting a joint invention that issued to only one inventor is invalid). *See also, Iowa State Univ. Research Found., Inc. v. Sperry Rand Corp.*, 170 USPQ 374 (4th Cir. 1971) (the law has been strictly construed to grant patents only to the true inventors).

⁴ Pub. L. 98-622, §104, 98 Stat. 3384, Nov. 8, 1984 (Inventors may apply for a patent jointly even though (1) they did not physically work together or at the same time, (2) each did not make the same type or amount of contribution, or (3) each did not make a contribution to the subject matter of every claim of the patent).

⁵ *Beech Aircraft Corp. v. EDO Corp.*, 26 USPQ2d 1572 (Fed. Cir. 1993) (inventorship and patent ownership are separate legal issues).

⁶ 35 U.S.C. §261

⁷ *Schering Corp. v. Roussel-UCLAF SA*, 41 USPQ2d 1359 (Fed. Cir. 1997) (each co-owner's ownership rights carry with them the right to license others, a right that also does not require the consent of any other co-owner).

⁸ Patents are governed by federal law but litigation involving ownership will likely be held in state court or governed by state law. *See, Jim Arnold Corp. v. Hydrotech Sys., Inc.*, 42 USPQ2d 1119 (Fed. Cir. 1997) (the question of who owns the patent right and on what terms typically is a question exclusively for state courts).

⁹ 35 U.S.C. § 256 (a co-inventor omitted from an issued patent may be added to the patent by a court). However, patent issuance creates a presumption that the named inventors are the true and only inventors and the burden is on the person seeking to be added to show that that person was an inventor. *See Hess v. Advanced Cardiovascular Sys., Inc.*, 41 USPQ2d 1782 (Fed. Cir.), *cert. denied*, 117 S. Ct. 2459 (1997).

¹⁰ Cost for getting a patent issued in the U.S. and ten foreign countries such as Canada, Mexico, Japan, Germany, the United Kingdom, Brazil, etc. is estimated to be \$50,000 to \$75,000 depending on the subject matter of the patent and the countries selected.

¹¹ *See Schering, Supra* note 7, at 1360 (one co-owner has the right to impede the other co-owner's ability to sue infringers by refusing to voluntarily join in such a suit).

¹² *Ethicon Inc. v. United States Surgical Corp.*, 45 USPQ2d 1545 (Fed. Cir. 1998) (grant of a license to an infringer by one co-owner cannot deprive another co-owner of the right to recover accrued damages for past infringement).